



Who wants to be a millionaire?

Why UK small-caps might just be the golden ticket hiding in plain sight.

Update
08 April 2026

There's no shortage of ways to make a million, though most tend to require a great deal of luck or a great deal of risk.

Take the National Lottery. Some 7,700 lucky souls have hit the million-pound jackpot, which sounds quite encouraging until you consider the odds stand at one in 45 million. Putting that into (a less uplifting) context, you're 40 times more likely to be struck by lightning.

ISAs, meanwhile, have been minting millionaires at a rather more dependable rate. The UK's 10,000 ISA millionaires already outnumber lottery winners, with that figure expected to reach 40,000 within a decade. Admittedly it requires more than a weekly £2 lucky dip but at roughly one in every 400 ISA holders, the odds start to look distinctly more palatable.

Better still, you don't need the stock-picking skills of Michael Burry to get there: almost 70 investment trusts would have turned a fully-subscribed ISA into a seven-figure sum for investors who started in 1999, according to the AIC. Despite the Magnificent Seven monopolising the limelight in recent years, there's a wealth of homegrown talent, with twice as many UK smaller companies funds on the list as all of the North American funds combined.

Among them is **BlackRock Smaller Companies (BRSC)**, a trust that's weathered more than its fair share of depressions, wars, recessions and bear markets in its 120-year history. Investors who've maximised their ISA allowance each year since 1999 would today be sitting on an ISA portfolio worth over £1.3 million, a testament to the rewards of patient compounding over performance chasing.

Playing the long game

The investment case for UK smaller companies is equally compelling over a longer timeframe. In the seven decades to 2025, they delivered annualised real returns of 9%, comfortably ahead of the sub-7% for US equities and just 3% for fans of bricks and mortar, according to Deutsche Numis.

This outperformance is underpinned by the higher growth trajectory of small-caps, with the natural advantage of starting from a lower base. Smaller companies also tend to be more agile than their larger counterparts and able to capitalise on emerging opportunities in often-overlooked niches.

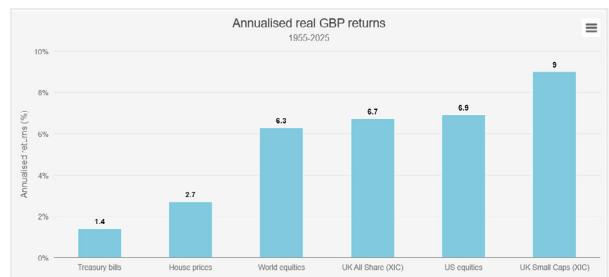
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Source: Deutsche Numis Indices 2026 Annual Review. Based on Deutsche Numis Smaller Companies Index, XIC (excluding investment companies).

Past performance is not a reliable indicator of future results.

This superior growth potential does come with a trade-off as smaller companies are typically more sensitive to risk-off sentiment, with macro headwinds driving investors toward larger, more defensive names over the last decade. As a result, UK small caps have suffered a double whammy, facing a global rotation away from the asset class as well as subdued investor appetite for UK equities.

However, sentiment had begun to show clear signs of improvement heading into 2025. The FTSE 100 climbed to record highs, gaining 26% in 2025, while the S&P 500 managed a comparatively



underwhelming 9% in sterling terms. The FTSE UK Small Cap Index delivered a respectable 14% return, though with relatively narrow leadership.

Two main catalysts could see this recovery broaden across the wider sector, the first of which is attractive valuations. The MSCI UK Small Cap Index trades more than 40% below its US small-cap counterpart on a forward price-earnings basis and almost 20% below European small caps (as at 27/02/2026). And this discount has not gone unnoticed: there were more than 50 offers for UK listed companies in 2025, with average bid premiums rising to 46% as depressed valuations prompted some bargain hunting by US and financial buyers.

The second is flows, with a clear reallocation away from the US driven by the sense that American exceptionalism may have peaked and growing concerns over returns from AI spending. The Bank of America Global Fund Manager Survey recently recorded the largest rotation out of US equities since records began, with allocations shifting to Europe and other international markets.

That money has yet to reach the UK, with UK equity funds suffering another £10 billion outflow in 2025, but the earnings case is becoming harder to ignore. Over 70% of UK public companies beat expectations in the first half of 2025, with full-year earnings growth coming in at a solid 6.2% for the MSCI UK Index, compared to 1.4% for MSCI Europe. Capital tends to follow performance and a reversal in outflows could have a significant impact on returns.

Better together

Attractive valuations and an under-researched universe make for a fertile hunting ground for active managers.

BRSC has a long and proven track record in navigating the UK small-cap universe and its planned merger with BlackRock Throgmorton (THRG) will create a larger, more liquid trust with a meaningfully lower fee structure. The combined entity will be co-managed by Roland Arnold and Dan Whitestone, who between them bring over four decades of experience investing in UK smaller companies.

Both trusts have endured a challenging few years, with rising rates and weak appetite for UK equities working against their quality growth investment style. Their longer-term record, however, speaks for itself: THRG and BRSC have delivered total returns of 98% and 75% respectively over the last decade, well ahead of the benchmark's 56%.

With the tailwind of resilient fundamentals, the enlarged trust looks well placed to capture a sustained recovery in UK smaller companies. For aspirational ISA millionaires, history suggests the odds compare rather more favourably

than a lucky dip and there's no danger of having to share the spoils with a Wernham Hogg syndicate from Slough.

Returns: share price returns as at 31/03/2026. Benchmark: Deutsche Numis Smaller Companies plus AIM (excluding Investment Companies) Index.

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